

TO: Files

CC: San Diego Audit Committee

FROM: Willkie Farr & Gallagher LLP

RE: Interview of Councilmember Anthony Young on May 11, 2006

DATED: July 31, 2006

On Thursday, May 11, 2006, Benito Romano and Heath Rosenthal, in Willkie Farr & Gallagher's ("Willkie") capacity as counsel to the Audit Committee, interviewed Councilmember Anthony Young. Also in attendance were Donielle Evans of KPMG. The interview took place in a conference room on the third floor of the San Diego City (the "City") Administration Building and lasted approximately one and a half hours.

The following memorandum reflects my thoughts, impressions and opinions regarding our meeting with Mr. Young, and constitutes protected attorney work product. It is not, nor is it intended to be, a substantially verbatim record of the interview.

Warnings

At the outset of the interview, Mr. Romano explained that Willkie represents the Audit Committee, not the City employees. Mr. Romano stated that although the material discussed during the interview would be treated as confidential, in the likely event that the Audit Committee issued a report, the privilege would be lost. Mr. Romano also informed Councilmember Young that the Audit Committee was cooperating with authorities who were also conducting their own investigations and the Audit Committee may share information gathered in Councilmember Young's interview with those authorities. Mr. Romano stated that if Councilmember Young could not remember something he should say so.

Background

Mr. Young stated that he served as served as Chief of Staff to Councilmember Charles Lewis III beginning in December 2002 until Councilmember Lewis's death in 2004. He had previously worked on Councilmember Lewis's campaign. Mr. Romano asked if Councilmember Young held any other City government positions; Councilmember Young said that he did not. Councilmember Young responded that when Councilmember Lewis passed away, there was a vacant seat in the City Council and he won the election to succeed him in December 2004. Prior to working for Councilmember Lewis he served as an intern to Congressman Jim Bates and County Supervisor Leon Williams. Councilmember Young also taught history, and was a teacher for 9 years. Subsequently, he ran a program called "Abbott" to help underrepresented youth from 7th grade on prepare for college. Councilmember Lewis added

that he also had a consulting business on the side to write proposals for programs that did work similar to the Abbott program.

Councilmember Lewis

Councilmember Young stated that Councilmember Lewis served as legislative aide and Chief of Staff to Councilmember George Stevens. Councilmember Young said Councilmember Lewis kept most of Councilmember Stevens's staff, with the exception of himself (Councilmember Young), who had not worked for Councilmember Stevens.

Mr. Romano asked what Councilmember Young's job duties entailed as Chief of Staff for Councilmember Lewis. Councilmember Young said that he performed administrative tasks and provided Councilmember Lewis with guidance on political issues. Mr. Romano asked Councilmember Young if anyone worked under him while he worked for Councilmember Lewis. Councilmember Young stated that he had two staffs, one which dealt with land use and the other which dealt with all other issues. He also had an executive assistant. Councilmember Young said that he looked at the paperwork that came into the office and decided to whom it went.

Later in the interview, Mr. Romano asked about the primary focus of Councilmember Lewis's office. Councilmember Young responded that the office focused on constituent services, economic development, such as affordable housing and commercial space, opportunities for young people, public safety, and other various projects, such as the development of a skateboard park, a senior building, and a fire station. He added that the office was more focused on these community issues than on City policies. Mr. Romano stated that Councilmember Young must have had close contact with the City Manager and his staff to implement those projects. Councilmember Young said that any of his correspondence on these issues would be directed to the City Manager who would send it to his own staff, because Council members were not supposed to direct the City Manager's staff.

Pension Issues

Mr. Romano stated that soon after Councilmember Lewis took office the Blue Ribbon Committee ("BRC") Report was issued and the San Diego City Employees Retirement System ("SDCERS") issued a response in 2003. Mr. Romano asked if there was someone in Councilmember Lewis's office who was tracking pension issues. Mr. Young responded that pension issues were not discussed in great detail between himself and either Councilmember Lewis or the policy person in the office. He did not recall anyone specific tracking pension issues. Councilmember Young also said that Councilmember Lewis had two policy staffers, and he is sure they talked with Councilmember Lewis about the pension issues.

Mr. Romano asked whether MP-2 was a part of Councilmember Lewis's campaign in 2002. Councilmember Young said that MP-2 was not discussed in the campaign. Mr. Romano asked if the deferred maintenance covered by the BRC Report came up in Councilmember Lewis's campaign; Councilmember Young said it did not. Councilmember Lewis ran unopposed. Mr. Romano noted that when Councilmember Lewis took office, Diann Shipione (SDCERS Board member) already had made allegations of wrongdoings related to the pension system and he asked whether those allegations were a hot issue. Councilmember Young said the issue was not important at that time. He explained that they were new to the office and

were concerned with making sure they were strong in the community by addressing acute community issues immediately. Councilmember Young stated that he did not get the impression that Councilmember Lewis felt that the pension problem was a burning issue on which his staff should focus.

Mr. Romano asked if Councilmember Lewis was briefed by a SDCERS representative when Councilmember Lewis first took office. Councilmember Young stated that he did not know whether Councilmember Lewis received an orientation, but he was briefed by Lawrence Grissom (SDCERS Administrator) while working for Councilmember Lewis. Mr. Romano asked if Councilmember Young initiated the orientation. Councilmember Young stated that he could not recall who initiated the meeting, but he said that he wanted to understand the pension issues. He said that “there was a flurry of things going on in my head” and he wanted to find out the condition of the retirement system. Councilmember Young added that Mr. Grissom said that the system would eventually correct itself and there was down time in 2001 due to the performance of the market.

Mr. Romano stated that, by the spring of 2003, there was a presentation made to the City Council Rules Committee and he asked whether Councilmember Lewis was on the Rules Committee at that time. Councilmember Young said that he was not. Councilmember Young responded that he did not recall how he viewed the pension system at that time. He remembered there was an important issue relating to the pension system, but Councilmember Lewis and his staff were trying to establish themselves and were concerned with issues in their local community. Later in the interview, Mr. Romano asked if there ever came a time when the pension was regarded by Councilmember Lewis as a crisis. Councilmember Young said that he was sure that there was, but he could not point to a conversation when this was discussed. Mr. Romano also asked whether the City Attorney’s Office briefed Councilmember Lewis on the *Gleason* litigation. Councilmember Young stated that he did not remember the day or the specifics, but he probably was briefed by the City Attorney’s Office.

Disclosure

Mr. Romano stated that in September 2003 the City Manager and the City Attorney’s Office learned of errors in the City’s financial statements and Les Girard (Assistant City Attorney) and Ed Ryan (City Auditor and Comptroller) appeared to discuss the errors in the fall of 2003. Councilmember Young stated that he believed Mr. Girard’s and Mr. Ryan’s discussions occurred in closed session and Councilmember Lewis never discussed what occurred in closed session with him. Mr. Romano asked whether Councilmember Young recalled a City Council meeting during which these errors were discussed. Councilmember Young responded in the negative and stated that he usually did not sit with Councilmember Lewis at City Council meetings.

Mr. Romano asked whether Councilmember Lewis had a procedure to review and approve bond documents. Councilmember Young said that he did not. He said that there were times when Councilmember Young would be interested in a specific issue and would tell a staffer to do it, without always going through Councilmember Young. Therefore, it was possible that Councilmember Lewis had a procedure to review bond documents with another staffer, but he was unsure. Later in the interview, Mr. Romano again asked how Councilmember Lewis reviewed disclosure documents. Councilmember Young stated that he did not remember how

Councilmember Lewis reviewed disclosure documents, and he did not remember directing any staff member to review them. However, he added that such a review could have happened.

Mr. Romano stated that the City underwent voluntary disclosures in early 2004 and he heard that the City Attorney's Office met individually with Council members in connection with those voluntary disclosures. Councilmember Young answered that he would recall the City Attorney's Office briefing Councilmember Lewis about the voluntary disclosures, but he did not recall such a briefing or discussing one with Councilmember Lewis. However, he emphasized that he was only representing that he could not recall a discussion with Councilmember Lewis about the voluntary disclosures, not that it was not discussed. Councilmember Young added that, around that time, he was investigating the sudden death of Councilmember Lewis (and that investigation began a few months after Councilmember Young took office). Mr. Romano asked how Councilmember Lewis passed away. Councilmember Young said that Councilmember Lewis died as a result of bleeding of his esophagus. He added that the tenor of his office was focused on Councilmember Lewis's death.

Impression of City Manager Michael Ueberuaga

Councilmember Young stated that he did not have a good frame of reference to have an opinion about Mr. Ueberuaga or his staff.

Wastewater

Mr. Romano asked if Councilmember Young learned that the City was not in compliance with state law sewer rate structures. Councilmember Young said that he was sure that he did, but he could not remember how. He said he most likely learned about this through some type of memorandum. Mr. Romano showed Councilmember Young a March 26, 2004 memorandum from Mr. Girard to the Mayor and City Council regarding continuing disclosure reports for metropolitan Wastewater utility and water utility (Exhibit 1) and noted that the memorandum was confidential. Councilmember Young said that he never saw such a document until he became a Council member. Mr. Romano asked if Councilmember Young would have learned about noncompliance through the newspaper or in open session. Councilmember Young responded that he would have. Mr. Romano asked if Councilmember Lewis had concerns about closed sessions. Councilmember Young responded that the only complaint he could recall was that Councilmember Lewis thought closed session was too long.

Councilmember Young said that he had a staff member who followed water and sewer issues, but he did not receive intense briefing on these issues. Mr. Romano commented that the rate structure was an important issue to some Council members. Councilmember Young agreed and stated that Councilmember Lewis also believed that the rates were not fair. Mr. Romano asked if the rates were an issue for Council member Young's community. Councilmember Young said it was, but he did not recall hearing the issue being discussed repeatedly at City Council meetings.

Councilmember Young did not recall a City Council meeting in June 2004 that concerned changing rate structures. He explained that it was very likely that there was a staffer sitting with him at the time because he almost always had someone sitting with him. Councilmember Young also stated that he was almost always briefed on the issues that appeared

on the City Council docket. Mr. Romano asked if Councilmember Young recalled being aware of Councilmember Donna Frye's position that the rate issue should have been discussed in open as opposed to closed session. Councilmember Young said he recalled that this was an issue for Councilmember Frye. Councilmember Young could not recall Councilmember Lewis sharing his position on this issue with him.

Remediation

Mr. Romano asked Councilmember Young's thoughts on remediation. Councilmember Young stated that the City Council wants strong recommendations on how any of the issues the Audit Committee uncovers never happen again.

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EXHIBIT 1

**ATTORNEY TO CLIENT
CORRESPONDENCE**

FOR CONFIDENTIAL USE ONLY

**Office of
The City Attorney
City of San Diego**

**MEMORANDUM
MS 59**

(619) 236-6220

DATE: March 26, 2004
TO: Honorable Mayor and City Council
FROM: Leslie J. Girard
SUBJECT: *Continuing Disclosure Reports for Metropolitan Wastewater Utility and Water Utility*

As part of the process of issuing bonds, in order to enable the underwriters of the bonds to comply with SEC required continuing disclosure rules the City annually files a report updating the City's financial condition and the condition of the fund which provides the credit for the issued bonds. In the case of Wastewater Utility bonds that is the sewer enterprise fund, and in the case of Water Utility bonds it is the water enterprise fund. In addition, the City is obligated to provide any new, material information arising since the filing of the last report. These disclosures are covered by the federal securities laws and are commonly referred to as "Continuing Disclosure Reports."

The Continuing Disclosure Reports for the Wastewater Utility and Water Utility are due to be filed today. As with other disclosures recently filed by the City, these disclosures will be filed electronically, but will be publicly available at that time. We anticipate filing in the early afternoon. Copies of the disclosures are enclosed for your review.


There are a couple of matters to bring to your attention in the disclosures. First, the disclosures acknowledge that the audited financial statements of the City and the funds, normally included with these reports, are not being provided at this time. The reports indicate that the City has retained KPMG to provide the audits of the financial statements, and that the statements will be filed when available. Second, the reports disclose the tentative settlement of the *Gleason* case and indicate that projections based on the settlement are being performed but are not yet available. The reader is cautioned to no longer rely upon the projections of pension liability set forth in the January 27, 2004, filing in light of the potential settlement. Finally, in the Wastewater disclosure there is a discussion of the status of the cost of service study, which is currently in progress. As the disclosure outlines, the State Water Resources Control Board has

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informed the City that it must implement a revised rate and charge system that meets certain criteria beginning in fiscal year 2005 (which commences on July 1, 2004). The cost of service study, upon which the new charge system would be based, is anticipated to be before you for consideration in early June to meet this deadline. The disclosure goes on to point out that if the revised system is not in place the City may risk having to refund some or all of the approximately \$266 million in grants and loans provided by the state for the system.

There are other matters of interest in the disclosures, and we urge you to read them carefully. I have attempted to outline the more significant issues. A similar report for the General Fund must be filed in the next few weeks and we will provide you a copy of that disclosure when it is finalized. We anticipate that it will be very similar in most respects to these disclosures, but may contain more information regarding the impact of the *Gleason* settlement.

If you have any questions, please do not hesitate to call me or Deputy City Manager Pat Frazier.



Leslie J. Girard
Assistant City Attorney

LJG:ljk:km

Enclosures (2)

cc: Michael Uberuaga, City Manager
Lamont Ewell, Assistant City Manager
Mary Vattimo, City Treasurer
Pat Frazier, Deputy City Manager
Terri Webster, Acting City Auditor & Comptroller

*** Slip Sheet ***

Child

**NOTICE TO MUNICIPAL SECURITIES RULEMAKING BOARD AND
NATIONALLY RECOGNIZED MUNICIPAL SECURITIES INFORMATION REPOSITORIES
OF FAILURE TO FILE ANNUAL FINANCIAL REPORT OF
THE PUBLIC FACILITIES FINANCING AUTHORITY OF THE CITY OF SAN DIEGO**

The Annual Report does not include the financial statements for the year ending June 30, 2003 (the "2003 Statements"), for the Sewer Revenue Fund or the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2003. The City found errors in the sewer fund financial statements for the year ended June 30, 2002, as well as other 2002 financial statements of the City, including its Comprehensive Annual Financial Report (the "2002 CAFR"). It is the opinion of the City Auditor and the City Outside Auditor (Caporicci and Larson) that, in accordance with accounting and auditing professional guidelines, discovered errors related primarily to footnotes, and were not material either individually or in the aggregate in the context of the 2002 CAFR taken as a whole. The City has retained the accounting firm of KPMG LLP, to perform a full scope audit and render an opinion on the 2003 Statements and the basic financial statements in the Comprehensive Annual Financial Report for the fiscal year ending June 30, 2003 (the "2003 CAFR"). The City is therefore delaying release of the 2003 Statements as well as other financial statements that may be contingent on results of the 2003 CAFR audit. The City currently expects to have these audited financial statements ready for publication in June of 2004, although no assurance can be given that the audited 2003 Statements will in fact be published by then. At such time as the audited 2003 Statements are published, the Annual Report will be appropriately amended to provide the 2003 Statements, which will be submitted as an addendum to the Annual Report.

The remainder of the Annual Report information required under the Continuing Disclosure Agreements was filed with the Nationally Recognized Municipal Securities Information Repositories and the Trustee on or before March 26, 2004, in compliance with the Continuing Disclosure Agreements.

Dated: March 26, 2004

 as,
Disclosure Representative

cc: Wells Fargo Bank, Corporate Trust Services